THE SCOPE AND SIGNIFICANCE OF MONETARY AND BANKING INVESTIGATIONS IN THE UNITED STATES AND GREAT BRITAIN SINCE 1900

BY

JOHN GILBERT McGREW

A. B., New River State College, 1932
M. A., West Virginia University, 1936

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS
IN THE GRADUATE SCHOOL OF THE UNIVERSITY
OF ILLINOIS, 1942

URBANA, ILLINOIS

1942

THE SCOPE AND SIGNIFICANCE OF MONETARY AND BANKING INVESTIGATIONS IN THE UNITED STATES AND GREAT BRITAIN SINCE 1900

BY

JOHN GILBERT McGREW

A. B., New River State College, 1932
M. A., West Virginia University, 1936

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS
IN THE GRADUATE SCHOOL OF THE UNIVERSITY
OF ILLINOIS, 1942

URBANA, ILLINOIS

1942

Digitized by the Internet Archive
in 2026

https://archive.org/details/IA41549818_0310

The study analyzes the scope of the important monetary and banking investigations conducted in the United States and Great Britain since 1900. The origin, method of study, compiling of the data, the drafting of proposals, and the recommendations are studied in connection with each investigation. On the basis of this analysis, the study presents an interpretation and evaluation of each monetary and banking investigation, and its achievements. A comparison of these investigations is made, not only between the United States and Great Britain, but between each of the investigations conducted in the same country. Regarding the proposed Wagner Investigation, the study makes an analysis of the inquiry as far as it has progressed and shows the need for an appraisal of recent monetary and banking measures as to their survival value. In relation to the other investigations under scrutiny, the study suggests how the proposed Wagner inquiry and future monetary and banking investigations might profit from their experience.

The study determines the significance of the monetary and banking investigations in the United States and Great Britain as a means or a technique to be employed in the solution of the perplexing problems in relation to these financial institutions. On the assumption that our monetary and banking policy should be exercised in such a manner and as far as practicable to render assistance to the normal evolution of the economic and business structure, the study explains the part played by monetary and banking investigations in the United States and Great Britain in facilitating the adaptation of financial institutions to meet the ever-changing problems.

The National Monetary Commission

In the United States the National Monetary Commission conducted an investigation of the monetary and banking system from 1908 to 1912. The crisis of 1907 resulted in the creation of the National Monetary Commission which was to inquire into the changes "necessary or desirable in the mone-

tary system of the United States or in the laws relating to banking and currency". The Commission, composed of nine members of each house of Congress, was headed by Senator Aldrich. Due to the lack of available literature on the processes and functions of modern banking institutions, the Commission was obliged to enlist the services of experts for "a fresh examination of banking in the leading countries".

Following almost four years of investigation, during which time monographs were prepared by govenment officials, bankers, financial editors, economists, and others on foreign banking systems and our own money and banking problems, and hearings were held in this country and abroad, the Commission submitted in 1912 a comprehensive report of over forty volumes, including a bill formulated on the basis of its findings. The Aldrich Bill, providing for the creation of the National Reserve Association, was formulated following over a year's criticism of a suggested plan for monetary legislation submitted to the Commission by Senator Aldrich. Although Senator Aldrich dominated in many respects the work of the National Monetary Commission, it would be erroneous to conclude that other members of the Commission had nothing to do with formulating the Aldrich Bill as the published views of various members of the Committee in the preceding year were similar to that proposal and also to the Federal Reserve Act passed three years later. The Aldrich Bill, prepared after such a comprehensive investigation and approved by large numbers, failed to receive any consideration in Congress because of the change in the political situation. The Democratic Congress passed instead the Federal Reserve Act which used similar language and in many places identical passages and principles of the Aldrich Bill as attested by an analysis of the two measures.

With the investigation of the National Monetary Commission the Government initiated a constructive policy of systematic centralized organization of banking. Combined reserves and the policy of rediscounting superseded note issue as banking principles in regulating the credit organization. The creation of a market for commercial paper emphasized the need for fluidity of credit.

The investigation of the National Monetary Commission should be credited with publishing a voluminous amount of banking information, crystallizing public opinion, furnishing a nucleus around which to develop support for monetary and banking legislation; and, while its recommendations were never acted upon as such, its suggestions, recommendations, and proposals influenced, both directly and indirectly, the banking reform represented by the Federal Reserve Act. The modifications of the Federal Reserve System since its establishment have tended to make it conform more closely to the recommendations of the National Monetary Commission.

The Cunliffe Committee

The Committee on Currency and Foreign Exchange After the War (1918-19), popularly termed the Cunliffe Committee after its chairman, Lord Cunliffe, was created in answer to the criticisms of the British Government's policy in financing the World War by a tremendous inflation of credit. The Cunliffe Committee, composed of men of wide experience in monetary and banking affairs, was authorized to consider "the problems which would arise in connection with the currency and foreign exchange during the period of reconstruction after the war and the steps necessary to restore normal conditions".

The Cunliffe Committee, following an intensive investigation of about seven months, submitted its Interim Report in August, 1918. The collection of the necessary data was secured through the hearing of oral evidence and the submission of written views from witnesses representing a wide variety of economic organizations. Following a year of further study the Committee submitted its Final Report which confirmed the recommendations made in the former document.

After presenting a lucid description of the operation of the gold standard, and the transformation of the currency system during the war, the Report stressed the necessity for Great Britain to restore the effective gold standard in order to maintain her position in international trade and as a financial centre. Practically all other recommendations simply indicated the path in reaching this end. The Committee concluded that the prerequisites for the restoration of the gold standard

were the cessation of Government borrowing, making effective the Bank of England discount rate, and the legal limitation of the note issue. Following a study of the fiduciary note issue and alternative proposals, the Committee recommended that the principle of the Bank Charter Act of 1844 should be maintained, namely, that "there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold"; however, since the fiduciary issue would depend on factors which could not then be accurately determined, the Committee fixed tentatively the amount of the central gold reserve at 150,000,000 pounds, leaving the ultimate dimensions of the fiduciary issue to be settled by the result of experience. The recommendations charted a familiar, orthodox, and deflationary course which would achieve these fundamental aims and prevent a continual strain on sterling, the dissipation of the Bank of England's gold reserve, and the impairment of Great Britain's competitive trade position.

The practical British policy after the war was to break down gradually and persistently the obstacles which prevented a return to the gold standard. The recommendations of the Cunliffe Committee furnished the leading principles for the Gold Standard Act of 1925, and the Currency and Bank Notes Act of 1928. Great Britain thus gave a lead in defining the principles on which its currency was to be guided in the future and presented a pattern to which other countries might look for guidance. The decision by Britain to restore the gold standard involved the solution of more fundamental problems than the pre-war system; problems which could not have been foreseen by the Cunliffe Committee as was pointed out later by the Macmillan Committee. The lack of recovery of Great Britain in the decade following the war at least in some regard could be attributed to the method and hesitancy in executing its recommendations. The Cunliffe Committee recognized that its recommendations gave only a broad general outline of the principles dealing with the currency difficulties, and that they would not provide a permanent solution to these problems, but it recommended the appointment of other committees to deal with specific problems and to again review the monetary and banking system about a decade after the war.

The Macmillan Committee

The Committee on Finance and Industry (1929-31), termed the Macmillan Committee after its chairman, Lord Macmillan, conducted the second monetary and banking investigation in Great Britain since 1900. The Macmillan Committee, representing a wide variety of interests, was appointed to determine the responsibility of the monetary policy for the state of almost constant depression, prevailing in Great Britain in the decade following the World War. According to the terms of appointment the Macmillan Committee was "to inquire into banking, finance, and credit" both internal and international, and "to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labor".

The Minutes of Evidence included oral evidence and written views from witnesses representing industrial groups, the Treasury, Bank of England, joint stock banks, labor organizations, economists, and other experts. These two volumes represented a valuable source of information on monetary and banking policy and theory, particularly the British experience in the critical years from 1925 to 1931.

The Report of the Macmillan Committee presented a lucid description of the post-war financial and economic problems and statistical data which had been unavailable. In the realm of monetary and banking theory it did much to elucidate the complexity of the many forces of disequilibria—ranging from war debts to tariffs and from Wall Street speculation to rigid British wages—which had hampered economic progress and obstructed the smooth working of the reestablished gold standard. The Report showed that the world had changed with new problems, and a new technique was needed to meet them; however at the same time it emphasized the limitations and difficulties of using monetary policy to solve all of these problems. This treatise on monetary theory and practice contained extremely valuable lessons not merely for Great Britain but for Governments and monetary authorities all over the world.

The conclusions and recommendations of the Macmillan Report advanced proposals not only to meet the existing emergency but also presented proposals relating to the international and domestic monetary policy of a permanent character. The Macmillan Report recommended that a "deliberate and conscious" management of the currency system should be assumed by the Bank of England with the objective of raising considerably the price level and maintaining it at that point with as much stability as possible by means of cooperation among the central banks in regulating the volume and terms of credit. The principle of the fixed fiduciary note issue was criticized as associating the amount of gold which the Bank of England should hold immobilized and unavailable for export with the amount of active note circulation. It stressed the advantages of a high degree of mobility of the central gold reserve, marking 75 million pounds as a minimum, and recommended that the gold reserve and volume of note issue should be settled independently of each other.

Subsequent monetary and banking history shows that the recommendations of the Macmillan Committee have guided British monetary policy since 1931. Great Britain has instigated movements for international cooperation among central banks for raising the world price level. Being forced off the gold standard in 1931, thus removing any fixed relationship between the gold reserve and the note issue, Great Britain, through a "conscious and deliberate" policy of the Bank of England has attempted to raise and to stabilize prices by controlling the exchanges and the volume and terms of credit in order to promote industry and employment.

The Macmillan Report veered away from the orthodox complacencies of the Cunliffe Report because it considered the change in circumstances and conditions necessitated a modification in the monetary system. An understanding of the general economic and monetary conditions under which both investigations were made leads to the conclusion that it would be impossible to state that either Report was not justified in its recommendations.

Investigation Proposed Under the Wagner Resolution

The Wagner Resolution (S. Res. 125, 1939) was enacted by the United States Senate to meet the need of a re-examination and clarification of our monetary and banking policy as a result of the far-reaching economic and financial changes, the extensive modifications in our monetary and banking structure since the depression, and the numerous aspects of our monetary and banking policy and practices awaiting consideration. The Senate Banking and Currency Committee, with Senator Wagner as chairman, was authorized to conduct an investigation "to consider and recommend a national monetary and banking policy" and "the character of the governmental machinery best calculated to carry out such policy."

A comprehensive questionnaire was prepared for the Wagner Committee by the Brookings Institution and was made public on April 16, 1940. The questionnaire was directed to various government agencies, the Board of Governors, the Federal Reserve Bank, the two banking associations, and state bank supervisors. The questions were concerned with practically every phase of our monetary and banking policies and objectives, and the answers were to serve as a basis for future studies and hearings of the Committee. As far as can be ascertained, complete answers to the questionnaire on National Monetary and Banking Policy have been submitted by three bodies: the American Bankers Association, the Association of Reserve City Bankers, and the Board of Governors of the Federal Reserve System; only the first named has been made public. The investigation of the Wagner Committee was suspended in the fall of 1941 because of the war.

The answers of the American Bankers Association and the Association of Reserve City Bankers were compiled from a thorough and intensive study. The analyses of the answers of these groups to identical questions showed a marked similarity on the essential points. Both Associations' answers were predicated on the basis that the dual system of state and national banks would best serve the interests of the country, and expressed at times categorically and at other times cautiously, the conclusions and reasoning of a group of active

bankers. Both expressed and implied a fear of further concentration and bureaucratic control of the banking system and urged that any changes should be accomplished in an evolutionary and deliberative manner.

Numerous monetary and banking problems must be analyzed and assessed before the Wagner Committee will be in a position "to recommend a national monetary and banking policy". The urgency created by the inflationary dangers of the war program has been stressed by various groups and has given an impetus to early action on the question of excess bank reserves. Although Congress has enacted other types of measures to prevent inflation, it has so far been reluctant to grant sufficient power to deal with the excess reserves or to revoke the President's monetary powers. Expediting the Wagner investigation during the present emergency rather than discontinuing its task might have enabled the banking mechanism to withstand better the stresses and strains to which it will likely be subjected during the war and in the period of readjustment to follow, similar to the course pursued by the Cunliffe Committee of Great Britain. The problems of the present emergency might profitably redirect the emphasis of the Wagner Committee just as the World Depression did the Macmillan Committee.

The problems concerning gold which confront the United States as the result of the accumulation of more than three-fourths of the world's total stock of an asset "which is of little value now and whose value in the future is unpredictable" requires thoughtful study and investigation as to the proper course of future action. The rapid infusion of silver in our monetary system and the existing extensive powers of the President to further remonetize that metal requires that the Wagner Committee appraise the present silver policies and determine its position in our future monetary system.

Notwithstanding the numerous modifications in banking operation and structure during the last decade, the Wagner Committee will be faced with the problem of appraising our existing system in order that our banking mechanism might be in a position to meet future critical situations effectively

both in the present emergency and from the long-term viewpoint. The attention of the Wagner Committee will be directed toward such problems as the concentration of control of banking. the division of responsibilities which has resulted in an over-lapping of functions and conflicting jurisdiction of the banking supervisory system, unification and codification of the banking law, dual or unified banking system, and branch banking. Among the most important questions facing the Wagner Committee are problems concerned with the possibility or advisability of formulating permanent objectives of monetary and banking policy, their embodiment in legislative enactment, assigning of responsibility for such decisions, and the proper criteria and technique in executing the monetary and banking objectives. The difficult task facing the Wagner Committee will require further study and investigation necessary before it will be in a position "to recommend a national monetary and banking policy . . . and the character of the machinery best calculated to carry out such policy".

The investigation proposed under the Wagner Committee high have profited from the experience and deficiencies of the National Monetary Commission by balancing the membership of the investigating group rather than appointing a large majority of the dominant party in Congress. In another manner the experience of the former investigation might have proved beneficial by appointing experts or specialists on the investigating committees because of the lack of technical knowledge on the part of the members of Congress of such matters and their pressing duties which have tended to stretch out the investigations with periods of inactivity.

Conclusions

A comparison of the analyses of the monetary and banking investigations in the United States and Great Britain shows that the investigations in both countries were instigated as a result of dissatisfaction, disruption, or defects in the monetary and banking system growing out of changes in the economic and financial conditions. In both countries the committees were authorized to conduct an investigation of a very broad scope.

The committees appointed to make the studies in Great Britain have been smaller, represented more varied interests, and have done the investigating themselves while the larger committees in the United States have been confined to congressional members, over-balanced with the majority party in Congress, and most of the investigating has been delegated to non-members. The British investigations have been conducted with more of an international outlook while those in the United States have been largely centered on national or internal conditions. The monetary and banking investigations in Great Britain, each extending over less than two years, have been conducted with more promptness than those in the United States, both of which have or will extend four years or over.

The conclusions and recommendations of the British Committees have indicated broad lines of policy; the National Monetary Commission formulated a bill prescribing rules and regulations which stipulated definitely the organization and operation of our banking system, and from all indications the Wagner Committee will follow its example. Although all of the investigations have recommended an increasing centralization of the control of money and banking, this concentration of control in Great Britain has been vested with the Bank of England, a privately owned and managed institution, while in the United States the tendency has been toward the diffusion of responsibility among several politically-appointed government officials or groups.

The monetary and banking investigations in the United States and Great Britain since the beginning of the twentieth century have been instigated to preserve economic and monetary stability, the lack of which was manifested in price fluctuations either as a result of inflation or deflation. These investigations have used past experiences in discerning the possible solution of the problems confronting modern society. The recommendations and conclusions have drawn heavily on the evidence and data collected which was attested by the numerous references to this material; and both the pertinent data and the recommendations have been of great educational value in stimulating interest in and placing in an understandable form monetary and banking problems. Some economic liter-

ature has been prone to criticize recommendations of these investigations without a sufficient understanding of context or of the supporting data.

The courses charted by the monetary and banking investigations have been in response to current social, economic, and political factors, yet they have also emphasized certain relationships within these fields of a more permanent validity in emphasizing principles of money and banking of a more enduring nature. The committees have been cognizant of the fact that the monetary and banking mechanism could not be insulated from the effects of the government's financial policies or from the general economic system of which it was such an integral part, nor could the entire economic system be controlled by the single lever of the monetary mechanism.

An evolution of the emphasis on the different aspects of monetary and banking questions can be noted in the various periods in which the monetary and banking investigations were conducted. The earlier investigations were predicated on the desirability of maintaining the "automatic" gold standard while in the more recent period the acceptability of the gold standard has been increasingly criticized, and deliberate and conscious management of the monetary and banking system toward some specific goals has been stressed. There has been a tendency to concentrate in the central banking institution greater control over general credit conditions. New techniques have been developed and the effectiveness of others extended. The conception of elasticity has been applied to loan expansion taking the form of deposits, rather than through note issue. The function of bank reserves to insure liquidity or solvency in the earlier period has evolved as a technique to make effective, along with other devices, the control of credit by the central bank authorities. The investigations have resulted in unanimous agreement that the effectiveness and the success of any monetary and banking institutions and legislation pertaining to them depended on the skill, wisdom, and training of those charged with such responsibilities.

From the analyses of these monetary and banking investigations as to the purposes for which the studies were instigated, and the methods used in collecting the data and formulating the proposals, the recommendations of the monetary and banking inquiries completed since 1900 in the United States and Great Britain have had an important bearing on subsequent monetary and banking legislation and practices.

These investigations have served as valuable technique in the study and the solution of the monetary and banking problems in the United States and Great Britain. Many advantages may be derived from creating a committee of the best minds of the country who could carefully review the monetary and banking problems and consider the conflicting proposals in their true perspective which should lead to a more systematic and comprehensive adjustment of the financial institutions. Of the various plans, the investigation might be conducted at periodic intervals, similar to the decennial review of the monetary and banking laws of Canada, or the Committee could be a permanent group which would make the study of monetary and banking problems a continuous task, designed not merely to meet emergencies but attempt to prevent them from appearing. Only through a comprehensive investigation will it be possible to apply the concerted effort of the most experienced and best trained minds to the complex monetary and banking problems in such a manner as to promote and to maintain the most efficient operation of the monetary and banking mechanism.

VITA

John Gilbert McGrew was born at Charleston, West Virginia, on September 14, 1910. After graduation from Ripley High School, Ripley, West Virginia, in 1928, he entered New River State College (now West Virginia Institute of Technology) at Montgomery, West Virginia. He received the degree of Bachelor of Arts with a major in social studies from that institution in 1932. He taught in Ripley High School for four years (1933-37). By attending summer sessions at West Virginia University during this period, he was granted the Master of Arts degree in education in 1936. The topic for his thesis was "A Proposal for the Reorganization of the Public Schools in Jackson County, West Virginia". From 1937 to 1940 he taught in Sissonville High School, Sissonville, West Virginia. During the same period he attended the summer sessions of the Graduate School of the University of Illinois. He spent the school year of 1940-41 in residence at the University of Illinois. He is now teaching economics at Concord State Teachers College at Athens, West Virginia.